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Adding value by facility management: a European perspective

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Introduction

Theo van der Voordt of the Delft University of Technology, and Per Anker Jensen of the Technical University of Denmark recently interviewed a number of European managers to shed light on adding value in daily practice.

Recent years have seen a growing interest in the concept of added value of facilities management (FM) and corporate real estate management (CREM), and how to attain and measure it. There is a wide variety of definitions in use, and recognition of different types of added value, such as user value, customer value, financial value, environmental value and relationship value.

As a workshop at last year's European Facility Management Conference confirmed, the concept of Added Value is interpreted in many ways. Prioritisation of different types of added value was shown to be highly subjective and dependent on an individual's position, experience and personal beliefs. Most prioritised values included the contribution of FM and CREM to the quality of life, the productivity of the core business, user satisfaction and sustainability.

However, the participants found it difficult to detail specific measures of *how* to add value. The answers ranged from evaluating happiness, satisfaction and work support, to creating energy savings in building retrofitting, to abstract measures such as steering on economics, efficiency and effectiveness, or 'good price & value for the client'.

In order to further explore how people in practice manage added value, interviews were subsequently conducted with a number of experienced senior facility managers, corporate real estate managers, consultants and service providers in Denmark and the Netherlands.

Daily Practice

It was found that almost all the interviewees use the term Added Value in daily practice. It is used both to demonstrate the added value of ones' own function or department and to discuss the added value of interventions in accommodations and related facilities and services.

One of the advantages of applying the Added Value-concept is that the dialogue is moved away from the contractual agreement and the Service Level Agreements. According to one of the respondents: "It makes the customer feel that you are interested in his business and not just in submitting the next bill. It makes it possible to raise the level of the whole facility management provision". It helps to speak the language that top managers understand.

Different Perceptions and focus points

The downsides of Added Value as a concept are that it is:

- perceived differently by different people
- difficult to be made operational, and
- difficult to measure in economic terms.

It is critical to understand which value is most important for the client or customer and what he or she really needs – which is often more than simply solving the current problem.

Most practitioners perceive Added Value as the trade-off between benefits and costs, and focus on achieving value-for-money and making the core business more effective. Value has both an economic meaning and meanings related to subjective qualities, such as making things easier to be managed. Various interviewees made a distinction between what they called hard economic aspects and more soft aspects related to health, safety, environment and quality.

The focus on particular types of value depends on the involved stakeholders. According to one of the interviewees:

- Shareholders focus almost one-sidedly on a high return on investment and low risk, costs and reliabilities.
- The Board of Management usually connects added value to their strategic vision and policy and steer on maximum turnover (volume of business), minimum costs, and a high Ebit **(**earnings before interest and taxation).
- Heads of regional units have to cope with both top-management needs (profit), regional customers and employee requirements. They try to find a balance between cost reduction and benefits such as attraction and retention of talented staff.
- Site managers focus more on operational issues and employee satisfaction.

There is also a difference in value adding on the strategic, the tactical and the operational level. According to one of the CRE-managers, adding value on a strategic level means developing site master plans and implementing the real estate strategy. Its focus is on the long-term decisions and avoidance of complaints. Adding value on a tactical level means, for instance, speed of delivery and to do what is being asked. Issues on an operational level include cost reduction, employee satisfaction and customer satisfaction.

Although Added Value is mostly treated on a strategic level, it is of relevance on all levels and for everybody in the facility management organisation. It should be part of the organisational culture. However, according to one respondent facility management is not really a strategic issue in most organisations and CEOs are not really interested in it. Talking about Added Value on an operational level can also be counterproductive because “operational managers don’t have a clue of what Added Value actually means”. The areas of focus in facility management also depend on the context. When the economy is booming, avoiding dissatisfaction and commotion might be key issues, whereas in times of economic recession, cost reduction will be core. The size of the company is a factor as well. In small firms facility management is mainly operational.

Prioritised values

The interviewees were asked as an open question "What are your top five values in the management of accommodations, facilities and services?" The responses per respondent are collected in Table 1.

Table 1: Prioritised values from ten respondents in Denmark and the Netherlands in response to open question

ID	1st	2nd	3rd	4th	5th
DK1	Transparency of cost and priorities	Scalability	Release management resources	User satisfaction	Satisfaction with service provider
DK2	Core Business objectives	Innovation	Coherent strategy between Core Business and FM	Productivity of Core Business	Communication
DK3	Create time	Create well-being			
DK4	Satisfaction of outsourced staff	Make processes smarter	Improvements and innovation	User centricity and service orientation	Corporate Social Responsibility
DK5	Increase energy conscience and reduce CO2 emissions	Ease of operation	Deliver better service with less or the same cost	Satisfaction	
NL1	Profit (ebit); improving cash position	Cost reduction	Transparency of Real Estate data for shareholders		
NL2	Cost reduction	Affordability			
NL3	Sustainability	Cost reduction	Identity	Satisfaction	
NL4	Cost reduction	Improving Core Business / Productivity	Health		
NL5	Efficient use of space	Forecasting future m2-needs	Balance between owned buildings, rented buildings and sale & lease back	Forecasting of future capital need	Engagement

Values related to Cost and Satisfaction were most frequently prioritised. However, satisfaction is seen as much more important than Cost in Denmark, while Cost is seen as much more important than Satisfaction in the Netherlands. Productivity is also often prioritised. Values in relation to Adaptation and Environmental are also mentioned in both countries, while Culture only is represented in the Netherlands.

The respondents were then interviewed on their approaches to six key values – satisfaction, cost, productivity, reliability, adaption and culture. They were asked how they worked to enhance them, and how they measured them.

Satisfaction is defined as the impact of FM or CREM on satisfaction of customers, staff/end users and owners. One of the respondents said that customer satisfaction has been most important but user satisfaction has become increasingly important. Satisfaction is often measured quantitatively by surveys, or more qualitatively, for instance, by mystery visits. Surveys results are often benchmarked across organisations.

Cost is defined as operational cost, staff turnover and capital investments. Cost reduction is obviously an important objective, but transparency was mentioned as well, Cost impacts are obviously often measured and also benchmarked, both in € and m^2 per person, per full-time equivalent or per workplace, occupancy level, total costs of ownership per m^2, or in terms of affordability, e.g. the ratio between facility costs and total costs of running a business.

Productivity is defined as efficiency, low staff absence and effectiveness. The impact of FM and CREM on core business productivity can be difficult to measure. A typical way for providers is to measure the number of proposals for improvements and innovations. Often productivity impact is not measured directly but addressed more qualitatively in discussions, business cases and performance reviews. Impact on productivity is rarely benchmarked.

Reliability is defined as business continuity, security and safety. The respondents' views on reliability varied a lot. One view is that reliability is at the lowest level of the Maslow pyramid of needs and therefore is not a motivation factor, which can add value. Another view is that business continuity has become increasingly important. An interviewee in a biotech company said that down time is important to control and that compliance to legal requirements has top priority. Reliability is mostly measured in terms of response time and business continuity and is not often benchmarked.

Adaptation is defined as foresight, flexibility and responsiveness. Adaptation is mostly considered on a high management level in relation to capital investments and contract negotiations. A CREM interviewee said that technical flexibility and flexibility in renting are becoming more important. Adaptation is rarely measured or benchmarked.

Culture is defined as organisational identity, corporate image and corporate brand. For some companies branding is important, but not for others. Some view culture as related to the image of FM and not as a corporate concern. One interviewee mentioned monitoring the image of FM internally (employee monitor) and externally (customer monitor) and remarked that external image is often more important than internal image. Engagement, i.e. a sense of belonging and being committed to the company, was mentioned more than once as well.

Besides KPIs there are also other ways to visualise or document added value. Providers often prepare performance reviews with fixed intervals to their customers. Other examples are business cases for specific initiatives and reports on finished projects. Added value is also included in the communication with stakeholders in less formal ways as part of on-going dialogue and storytelling. Management of expectations is an important aspect of adding value.

Conclusions

Regarding the definition of added value: all the respondents referred to both the benefits and costs of FM/CREM interventions. Benefits are mainly linked to clients, customers and end users but also to shareholders and – less often - to society as a whole. All respondents included different types of added values, without a clear classification into, for instance, user value versus customer value, or economic value versus environmental value. Practitioners mainly steer on the impact of FM and CREM on the core business and organisational performance, and this is also essential in provider companies' sales arguments.

The prioritised values are costs and satisfaction, followed by productivity. Remarkably, the values of reliability, and the economic, social and spatial impact on the surroundings, were not mentioned at all in response to the open question about prioritised values. The respondents were therefore subsequently asked to comment on them. Various possible impacts on the surroundings raised different interpretations or misunderstanding. Sustainability was mainly perceived as a building characteristic. Most respondents made no clear distinction between impacts on the core business and impacts on the surroundings, and focussed more on a distinction between interventions regarding buildings and building related facilities and services versus choices regarding the location and the surroundings.

Although various conceptual models and frameworks have been developed to visualise the added value of FM and CREM, it's apparent that such academic contributions aren't yet ready to be implemented into daily practice. Interviewees expressed a need for a clear framework that links concrete FM and CREM interventions to well defined types of Added Value, Key Performance Areas and KPIs. Furthermore there is an urgent need for best practices, empirical data and stories to illustrate the possible Added Value of various FM or CREM interventions to CEOs, clients, customers and end users.

Note
This article is a shortened version of a paper that was presented at the European Facility Management Conference 2014 in Berlin.